

**REPORT OF THE AUDIT OF THE
ADAIR COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2002**



EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ADAIR COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2002**

The Auditor of Public Accounts has completed the Adair County Fiscal Court audit for the fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances increased by \$179,865 from the beginning of the year, resulting in a cash surplus of \$777,049 as of June 30, 2002.

Debt Obligations:

Total bonded debt for the Jail facilities as of June 30, 2002 was \$326,084. Future collections of \$478,092 are needed to pay all bonded debt principal and interest.

Capital lease principal payments for the courthouse annex, voting machines and road paving project as of June 30, 2002 was \$755,101. Future interest and principal payments of \$934,937 are needed to meet those obligations.

Report Comment:

- The Fiscal Court Paid \$63,015 Of Interest and Service Charges Because Invoices Were Not Paid Timely

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

<u>CONTENTS</u>	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT	1
ADAIR COUNTY OFFICIALS.....	3
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY ARISING FROM CASH TRANSACTIONS	7
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES.....	10
STATEMENT OF CASH FLOWS-PROPRIETARY FUND TYPE	15
NOTES TO FINANCIAL STATEMENTS	16
SUPPORTING SCHEDULES:	
COMPARATIVE SCHEDULE OF BUDGETED TO ACTUAL OPERATING REVENUE.....	27
SCHEDULE OF OPERATING REVENUE	31
COMPARATIVE SCHEDULE OF FINAL BUDGET AND BUDGETED EXPENDITURES	35
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	39
COMMENT AND RECOMMENDATION	43
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Jerry Vaughan, Adair County Judge/Executive
Members of the Adair County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Adair County, Kentucky, as of June 30, 2002, the statement of cash receipts, cash disbursements, and changes in cash balances, and the related statement of cash flows for the year then ended. These financial statements are the responsibility of the Adair County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Adair County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Adair County, Kentucky, as of June 30, 2002, and its receipts and disbursements, and the cash flows of its enterprise fund for the year then ended, in conformity with the modified cash basis of accounting.



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In accordance with Government Auditing Standards, we have also issued our report dated July 16, 2003 on our consideration of Adair County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Fiscal Court Paid \$63,015 Of Interest and Service Charges Because Invoices Were Not Paid Timely

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Adair County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 16, 2003

ADAIR COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

Fiscal Court Members:

Jerry Vaughan	County Judge/Executive
Roger Stephens	Magistrate
Wid Harris	Magistrate
Tony Loy	Magistrate
Fred Sexton	Magistrate
Junior Brown	Magistrate
Joe Rogers	Magistrate
Terry Farris	Magistrate

Other Elected Officials:

Jennifer Hutchison	County Attorney
William Knight	Jailer
Ann Melton	County Clerk
Bill Ballou	Circuit Court Clerk
Ralph Curry	Sheriff
William Feese	Property Valuation Administrator
Rick Wilson	Coroner

Appointed Personnel:

Larry Dudley	County Treasurer
Gale Cowan	Deputy Judge/Executive
Lisa Lee	Personnel/Payroll Clerk
Jobe Darnell	Road Supervisor
Mary Allender	911 Administrator

STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

ADAIR COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	Governmental Fund Type	Proprietary Fund Type	Totals (Memorandum Only)
	<u>General</u>	<u>Enterprise</u>	
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash and Cash Equivalents	\$ 748,275	\$ 34,035	\$ 782,310
Total Assets	\$ 748,275	\$ 34,035	\$ 782,310
<u>Other Resources</u>			
Amounts to Be Provided in Future Years for:			
Capital Leases	\$ 755,101	\$	\$ 755,101
Bond Payments	326,084		326,084
Total Other Resources	\$ 1,081,185	\$ 0	\$ 1,081,185
Total Assets and Other Resources	<u>\$ 1,829,460</u>	<u>\$ 34,035</u>	<u>\$ 1,863,495</u>

The accompanying notes are an integral part of the financial statement.

ADAIR COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2002
 (Continued)

	Governmental Fund Type	Proprietary Fund Type	Totals (Memorandum Only)
	General	Enterprise	
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Capital Leases (Note 5)	\$ 755,101	\$	\$ 755,101
Bonds (Note 4)	326,084		326,084
Payroll Liabilities	5,261		5,261
Total Liabilities	<u>\$ 1,086,446</u>	<u>\$ 0</u>	<u>\$ 1,086,446</u>
<u>Equity</u>			
Retained Earnings:			
Reserved	\$	\$ 34,035	\$ 34,035
Fund Balances:			
Unreserved	743,014		743,014
Total Equity	<u>\$ 743,014</u>	<u>\$ 34,035</u>	<u>\$ 777,049</u>
Total Liabilities and Equity	<u>\$ 1,829,460</u>	<u>\$ 34,035</u>	<u>\$ 1,863,495</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

ADAIR COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

	General Fund Types				
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>					
Schedule of Operating Revenue	\$ 6,625,031	\$ 1,184,151	\$ 1,257,164	\$ 612,645	\$ 48,059
Jail Canteen Receipts	424,482				
Other Financing Sources:					
Transfers In	615,380	375,428	150,000	45,000	
Kentucky Advance Revenue Program	785,200	684,600	100,600		
Lease-Purchase Proceeds	300,000		300,000		
Total Cash Receipts	<u>\$ 8,750,093</u>	<u>\$ 2,244,179</u>	<u>\$ 1,807,764</u>	<u>\$ 657,645</u>	<u>\$ 48,059</u>
<u>Cash Disbursements</u>					
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 6,673,003	\$ 953,612	\$ 1,521,105	\$ 615,872	\$ 41,431
Jail Canteen Expenditures	413,528				
Unbudgeted Expenditures:					
Fireworks	3,000				
Transfers Out	615,380	239,752	125,200		
Bonds:					
Principal Paid	15,887			15,887	
Principal On Capital Leases	64,230	40,653	14,955	8,622	
Kentucky Advance Revenue Program Repaid	785,200	684,600	100,600		
Total Cash Disbursements	<u>\$ 8,570,228</u>	<u>\$ 1,918,617</u>	<u>\$ 1,761,860</u>	<u>\$ 640,381</u>	<u>\$ 41,431</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 179,865	\$ 325,562	\$ 45,904	\$ 17,264	\$ 6,628
Cash Balance - July 1, 2001	<u>597,184</u>	<u>87,442</u>	<u>37,576</u>	<u>9,771</u>	<u>17,266</u>
Cash Balance - June 30, 2002	<u>\$ 777,049</u>	<u>\$ 413,004</u>	<u>\$ 83,480</u>	<u>\$ 27,035</u>	<u>\$ 23,894</u>

The accompanying notes are an integral part of the financial statement.

ADAIR COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2002
(Continued)

General Fund Types				Special Revenue Fund Types		Enterprise Fund Type
Solid Waste Recycling Fund	Voted Public Health Facilities Fund	Fourth of July Fund	Enhanced 911 Fund	Forest Fire Protection Fund	Intergovernmental Transfer Fund	Jail Canteen Fund
\$ 1,067	\$ 12,230	\$ 2,300	\$ 240,768	\$ 2,034	\$ 3,264,613	\$ 424,482
43,500		700		552		200
<u>\$ 44,567</u>	<u>\$ 12,230</u>	<u>\$ 3,000</u>	<u>\$ 240,768</u>	<u>\$ 2,586</u>	<u>\$ 3,264,613</u>	<u>\$ 424,682</u>
\$ 73,450	\$	\$	\$ 200,334	\$ 2,586	\$ 3,264,613	\$ 413,528
		3,000				
	250,428					
<u>\$ 73,450</u>	<u>\$ 250,428</u>	<u>\$ 3,000</u>	<u>\$ 200,334</u>	<u>\$ 2,586</u>	<u>\$ 3,264,613</u>	<u>\$ 413,528</u>
\$ (28,883)	\$ (238,198)	\$ 0	\$ 40,434	\$ 0	\$ 0	\$ 11,154
30,557	293,779		97,912			22,881
<u>\$ 1,674</u>	<u>\$ 55,581</u>	<u>\$ 0</u>	<u>\$ 138,346</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 34,035</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH
FLows-PROPRIETARY FUND TYPE

ADAIR COUNTY
STATEMENT OF CASH
FLOWS-PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2002

	<u>Enterprise Fund Type</u>
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities:	
Cash Received From Inmate Sales	\$ 69,406
Cash Received On Inmate Accounts	348,409
Cash Refunded On Inmate Accounts	(8,274)
Inmate State Pay	4,391
Other Receipts	2,475
Payments To Fiscal Courts	(306,112)
Payments To Others On Behalf Of Prisoners	(27,896)
Payments To Suppliers	<u>(65,820)</u>
Net Cash Provided By Operating Activities	<u>\$ 16,579</u>
Cash Flows From Capital And Related Financing Activities:	
Van and Trailer Purchase	<u>\$ (5,425)</u>
Net Cash Used By Capital And Related Financing Activities	<u>\$ (5,425)</u>
Net Increase in Cash	\$ 11,154
Cash And Cash Equivalents, July 1, 2001	<u>22,881</u>
Cash And Cash Equivalents, June 30, 2002	<u><u>\$ 34,035</u></u>

The accompanying notes are an integral part of the financial statements.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Adair County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Additional - Adair County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Adair County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Adair County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Adair County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, Solid Waste Recycling Fund, Voted Public Health Facilities Fund, Fourth of July Fund and the Enhanced 911 Fund.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Adair County Special Revenue Fund Type includes the following county funds: Forest Fire Protection Fund and Intergovernmental Transfer Fund.

3) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Adair County Enterprise Fund Type includes the Jail Canteen Fund, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget

The Adair County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget is not adopted for the Fourth of July Fund, however a formal budget should have been adopted for this fund.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. For the purpose of the statement of cash flows, the county considers all investments with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Westlake Regional Hospital is considered a related organization of Adair County Fiscal Court.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2003, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

ADAIK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 4. Long-Term Participation Agreement

The Kentucky Local Correctional Facilities Construction Authority, an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issues revenue bonds for the purpose of construction and reconstruction of jail facilities. The Authority issued \$1,911,326 of revenue bonds at various interest rates (7.10% through 10.625%), of which the county agreed to pay \$486,577 principal and a proportional share of interest. Revenue bonds outstanding as of June 30, 2002, totaled \$326,084. Future bond principal and interest requirements are:

Fiscal Year Ended June 30	Interest	Principal
2003	\$ 20,141	\$ 16,895
2004	19,036	17,966
2005	17,860	19,105
2006	16,611	20,317
2007	15,282	21,605
2008-2012	53,327	130,397
2013-2017	9,751	99,799
Totals	<u>\$ 152,008</u>	<u>\$ 326,084</u>

Note 5. Capital Lease Agreements

The county has entered into the following lease agreements:

A. Courthouse Annex Building

The county entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT) to finance the purchase of land and the construction of a courthouse annex building. The agreement requires 240 monthly payments and an annual principal payment to be paid in full January 2012. Principal outstanding as of June 30, 2002 was \$411,000. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Interest	Principal
2003	\$ 22,468	\$ 32,000
2004	20,637	33,000
2005	18,725	35,000
2006	16,700	37,000
2007	14,539	40,000
2008-2012	35,567	234,000
Totals	<u>\$ 128,636</u>	<u>\$ 411,000</u>

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 5. Capital Lease Agreements (Continued)

B. Voting Machines

The county entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT) to finance the purchase of voting machines. The agreement requires 120 monthly payments and will be paid in full November 20, 2007. Principal outstanding as of June 30, 2002 was \$35,663. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Interest	Principal
2003	\$ 1,388	\$ 5,973
2004	1,074	6,247
2005	819	6,534
2006	552	6,834
2007	273	7,148
2008	28	2,927
Totals	<u>\$ 4,134</u>	<u>\$ 35,663</u>

C. Voting Machines

The county entered into a lease- agreement with Kentucky Association of Counties Leasing Trust (KACoLT) to finance the purchase of voting machines. The agreement requires 36 monthly payments and will be paid in full November 20, 2003. Principal outstanding as of June 30, 2002 was \$7,394. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Interest	Principal
2003	\$ 227	\$ 5,170
2004	25	2,224
Totals	<u>\$ 252</u>	<u>\$ 7,394</u>

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 5. Capital Lease Agreements (Continued)

D. Jail Roof

The county entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT) to finance the replacement of the jail roof. The agreement requires 60 monthly payments and will be paid in full March 20, 2004. Principal outstanding as of June 30, 2002 was \$15,999. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Interest	Principal
2003	\$ 476	\$ 9,018
2004	116	6,981
Totals	<u>\$ 592</u>	<u>\$ 15,999</u>

E. Road Paving Project

The county entered into a lease-purchase agreement with Kentucky Association of Counties Leasing Trust (KACoLT) to finance a road paving project. The agreement requires 120 monthly payments and will be paid in full November 20, 2011. Principal outstanding as of June 30, 2002 was \$285,045. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Interest	Principal
2003	\$ 8,874	\$ 26,304
2004	8,007	27,172
2005	7,110	28,069
2006	6,185	28,994
2007	5,228	29,951
2008-2012	10,818	144,555
Totals	<u>\$ 46,222</u>	<u>\$ 285,045</u>

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 6. Material Grants

A. PRIDE Community Grant Program

Adair County Fiscal Court (Fiscal Court) was awarded a grant under the Personal Responsibility in a Desirable Environment (PRIDE) Community Grant Program through the Center For Rural Development from National Oceanic Atmospheric Administration, United States of America, in the amount of \$57,270. Grant proceeds are to be used for spring community cleanup. During fiscal year 2002, the Fiscal Court received and expended grant funds totaling \$57,270. The unexpended grant balance as of June 30, 2002, was \$0.

B. Industrial Park Grant

Adair County Fiscal Court (Fiscal Court) was awarded a grant for \$250,000 from the Cabinet for Economic Development, Commonwealth of Kentucky, to provide funds for Adair County Industrial Park project. During fiscal year 2002, the Fiscal Court received and expended grant funds totaling \$250,000. The unexpended balance as of June 30, 2002, was \$0.

C. Emergency Medical Services Grant

Adair County Fiscal Court (Fiscal Court) was awarded a grant in the amount of \$27,846 from the Cabinet for Health Services, Commonwealth of Kentucky, to provide funds to assist in the purchase of ambulance or equipment and provide for and educate trained emergency medical services personnel. The unexpended balance, as of June 30, 2001, was \$27,846. During fiscal year 2002, Fiscal Court received no additional funds and expended grant funds of \$27,846. The unexpended balance as of June 30, 2002, was \$0.

Note 7. Insurance

For the fiscal year ended June 30, 2002, Adair County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Natural Gas Escrow Fund

On February 13, 1996, Adair County Fiscal Court approved Environmental Gas Company, Inc. (EGC) to be a non-exclusive gas franchise. The court required EGC to pay a deposit in the amount of \$10,000 to be placed in an escrow account until the Kentucky Public Service Commission grants a utility license and/or certificate of public convenience and necessity to construct for the franchise to EGC. As of June 30, 2001, the balance of the natural gas escrow fund was \$10,000. On June 13, 2002, this balance was transferred to the General Fund, leaving a balance of \$0 in the natural gas escrow fund as of June 30, 2002.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 9. Road Escrow Fund

In the prior year, Adair County Fiscal Court established a Road Escrow Fund. This fund was established from \$1,600 received from a taxpayer to pay for the road improvement of a right of way on Athleta Trace. In the event the improvement should cost less than \$1,600, the remainder will be returned to the taxpayer. The balance of the road escrow fund as of June 30, 2002, was \$1,600.

Note 10. Subsequent Event

On August 14, 2002, Adair County Fiscal Court paid \$390,581 for road materials. Since \$307,780 was for invoices that were over thirty days old, this amount included goods and services received during fiscal year 2002. Additionally, Fiscal Court was charged and paid interest and service charges of \$63,015 on this amount.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

ADAIR COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Types</u>			
General Fund	\$ 1,170,344	\$ 1,184,151	\$ 13,807
Road and Bridge Fund	1,276,354	1,257,164	(19,190)
Jail Fund	554,705	612,645	57,940
Local Government Economic Assistance Fund	48,055	48,059	4
Solid Waste Recycling Fund	6,000	1,067	(4,933)
Voted Public Health Facilities Fund	3,356	12,230	8,874
Enhanced 911 Fund	222,241	240,768	18,527
<u>Special Revenue Fund Types</u>			
Forest Fire Protection Fund	2,586	2,034	(552)
Intergovernmental Transfer Fund	3,195,970	3,264,613	68,643
Totals	<u>\$ 6,479,611</u>	<u>\$ 6,622,731</u>	<u>\$ 143,120</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 6,479,611
Add: Budgeted Prior Year Surplus			242,949
Add: Budgeted Borrowed Money			1,085,200
Less: Other Financing Uses			<u>(764,726)</u>
Total Operating Budget Per Comparative Schedule of Final Budget and Budgeted Expenditures			<u>\$ 7,043,034</u>

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SCHEDULE OF OPERATING REVENUE

ADAIR COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Revenue Categories</u>	<u>GOVERNMENTAL FUND TYPE</u>		
	Totals (Memorandum Only)	General Fund Types	Special Revenue Fund Types
Taxes	\$ 660,830	\$ 658,796	\$ 2,034
In Lieu Tax Payments	36,550	36,550	
Excess Fees	158,218	158,218	
Licenses and Permits	13,618	13,618	
Intergovernmental Revenues	2,137,881	2,137,881	
Charges for Services	74,231	74,231	
Miscellaneous Revenues	3,508,642	244,029	3,264,613
Interest Earned	35,061	35,061	
Total Operating Revenue	<u>\$ 6,625,031</u>	<u>\$ 3,358,384</u>	<u>\$ 3,266,647</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

ADAIR COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPES		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 446,995	\$ 432,832	\$ 14,163
Protection to Persons and Property	828,589	762,570	66,019
General Health and Sanitation	332,725	331,528	1,197
Social Services	4,402	3,901	501
Recreation and Culture	3,450	3,450	
Roads	1,448,864	1,446,084	2,780
Airports	7,700	7,700	
Debt Service	69,034	66,111	2,923
Administration	702,719	351,628	351,091
Total Operating Budget - General Fund Types	\$ 3,844,478	\$ 3,405,804	\$ 438,674
Other Financing Uses:			
Kentucky Local Correctional Facilities			
Construction - Principal on Bond	15,887	15,887	
Borrowed Money-			
Kentucky Advanced Revenue			
Program - Principal	684,600	785,200	(100,600)
Capital Lease Agreement-			
Principal on Lease	64,239	64,230	9
TOTAL BUDGET - GENERAL FUND TYPES	<u>\$ 4,609,204</u>	<u>\$ 4,271,121</u>	<u>\$ 338,083</u>
Expenditure Categories	SPECIAL REVENUE FUND TYPES		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Protection to Persons and Property	\$ 2,586	\$ 2,586	\$
Administration	3,195,970	3,264,613	(68,643)
TOTAL BUDGET - SPECIAL REVENUE FUND TYPES	<u>\$ 3,198,556</u>	<u>\$ 3,267,199</u>	<u>\$ (68,643)</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Jerry Vaughan, Adair County Judge/Executive
Members of the Adair County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Adair County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated July 16, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Adair County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation section.

- The Fiscal Court Paid \$63,015 Of Interest and Service Charges Because Invoices Were Not Paid Timely

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Adair County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 16, 2003

COMMENT AND RECOMMENDATION

ADAIR COUNTY
COMMENT AND RECOMMENDATION

For The Fiscal Year Ended June 30, 2002

The Fiscal Court Paid \$63,015 Of Interest and Service Charges Because Invoices Were Not Paid Timely

We found that numerous invoices for road materials were not paid in a timely manner. Invoices paid throughout the fiscal year did not include any interest or service charges. However, during our review of subsequent events, we found that on August 14, 2002, the county paid a vendor \$390,581 for road materials. Of this amount, a total of \$307,780 was for invoices that were over thirty (30) days old. As a result of this, the county was charged and paid an additional \$63,015 in interest and service charges.

This matter was discussed with the County Judge/Executive and he stated that the county had in the past always had a verbal agreement with the vendor allowing them to pay invoices for road materials when the road aid moneys became available. On July 3, 2003, the County Judge/Executive provided auditors with a copy of a statement from this vendor stating that the county has paid and is currently paying according to the vendor's terms. Invoices do state that a service charge of 1.5% will be added to any balance over thirty (30) days old.

KRS 65.140 states, "that unless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty working days of receipt of vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor. An interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty (30) working days which followed receipt of the vendor's invoice by the purchaser."

We recommend that the county pay all invoices within thirty (30) working days as required by this statute in order to avoid interest and service charges. The County Judge/Executive stated that the county had an agreement with the vendor to allow for late payment of invoices. We recommend that the County Judge/Executive and County Attorney obtain a refund for the interest and service charges paid.

County Judge/Executive's Response:

We will be paying on time in the future.

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

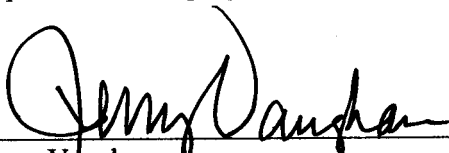
ADAIR COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2002


CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
ADAIR COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2002

The Adair County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Jerry Vaughan
County Judge/Executive



Larry Dudley
County Treasurer